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September 10, 2003

Robert Mitchell
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RE: *Premera, et al. v. Mike Kreidler, Docket No. 03-2-00112-8*

Dear Mr. Mitchell and Ms. Arnold:

Per Judge Casey's Order of September 5, 2003 (the "Order"), I am providing the enclosed Schedule of Deficiencies ("Schedule") that identifies current deficiencies in Premera's Form A Statement that were identified prior to November 26, 2002. As you are aware, there were items that had been identified to Premera and requested prior to November 26, 2002, that were produced by Premera as recently as August 26, 2003 in response Judge Finkle's decision relating to privilege.

As you know, the Commissioner's determination of what constitutes a complete Form A differs from the interpretation of Premera and the Court. However, for the purpose of identifying the deficiencies in the Schedule in accordance with the Court's Order, the rulings in the Order were applied. Pursuant to the Order, the 60-day timeframe within which the Commissioner shall make a decision will not begin to run until the deficiencies identified in the Schedule are corrected.

By complying with the Order in providing this list of deficiencies, there is no waiver by the Commissioner of any objection to the Court's Order and its underlying rulings. It is expected that Premera shall promptly comply with all outstanding data requests submitted to it after November 26, 2002 except to the extent that a claim of privilege or work product has been sustained.

Please feel free to call me once you have had an opportunity to review this material.

Sincerely,

Christina Beusch

CHRISTINA G. BEUSCH
Assistant Attorney General
Telephone: (360) 664-3801

CGB:tjj
Attachment

SCHEDULE OF DEFICIENCIES

Re: *Premera, et al. v. Kreidler; Cause No. 03-2-00112-8 in the Superior Court of the State of Washington in and for the County of Thurston*

Pursuant to the Order entered in the referenced matter on September 5, 2003, this Schedule identifies with specificity the deficiencies in Premera's Form A filing that were identified prior to November 26, 2002 that remain outstanding as follows:

1. November 2001 survey conducted by Accenture (referred to in the Business Plan – pages 19 to 20 and 25 – contained in Exhibit E-7 to the Form A). This item was identified to Premera and requested in deficiency letters sent to Premera dated October 7, 2002 and November 19, 2002. A complete copy of the survey is required under RCW 48.31C.030(2)(a)(ii) and (2)(d) and WAC 284-18A-910, Item 5, as part of the Form A. See also 48.31B.015(2)(a)(ii) and (2)(d); 284-18-910, Item 5.

Premera represented in its response to the November deficiency letter that a copy of the survey had been provided to the states' consultants (Bates numbers 0009028 – 0009079). The document that was provided was a copy of a January 2002 Accenture report and not the required November 2001 survey. The November 2001 survey was specifically referenced and relied upon by Premera in its Business Plan, which it submitted as part of its Form A filing. Premera's business justification for the conversion and explanation of future plans relies in part on the survey; therefore, the Form A is not complete and is deficient without it.

2. Description of Stock Ownership Plans (Exhibit G-10). This item was identified to Premera and requested in a deficiency letter sent to Premera dated October 7, 2002. In response to the deficiency letter, Premera submitted a document that merely described "certain limitations and restrictions" that would be applied to the anticipated Stock Ownership Plans for officers, directors and employees of Premera. It failed to provide the terms of the intended plans. The Stock Ownership Plans are required to be submitted under RCW 48.31C.030(2)(e) and (2)(g), and WAC 284-18A-910, Items 7(c) and 8(c), as part of the Form A. See also 48.31B.015(2)(e) and (2)(g); 284-18-910, Items 7 and 8.

The states' consultants have requested details relating to the proposed Stock Ownership Plans particularly as they relate to executive compensation post-conversion. Specifically, data request WA 107 dated October 22, 2002 required that Premera provide a "[s]ummary of proposed stock grants, options, or other equity-based incentive programs for Premera directors, elected officers, and key members of management, including proposed conditions/restrictions regarding grants, options, and aggregate holdings for this group." In addition, data request

WA 105, also dated October 22, 2002, required production of a "[s]ummary of Premera planned modifications to management compensation levels, bonuses, and director fees, either arising out of reorganization or planned for implementation post reorganization." Premera's response to these requests has consisted of a refusal to provide the terms of the Stock Ownership Plans it intends to adopt for its officers, directors, and employees. Rather, Premera has submitted in response to the deficiency letter and the experts' requests only general parameters of such plans found at Exhibit G-10 to Premera's Form A filing. Premera has represented that it has not approved any stock programs or made any determination of any stock programs that may be adopted in the future. Because Premera stated that it will not provide the terms and details of its Stock Ownership Plans and further requests from staff appeared futile, the request was closed and marked complete. However, the Form A is not complete and is deficient without the Stock Ownership Plans that Premera intends to adopt.

3. Schedules 1 (Assets) and 2 (Assumed Liabilities) to Exhibit D (Exhibit G-11 to the Form A). These items were identified to Premera and requested in deficiency letters sent to Premera dated October 7, 2002 and November 19, 2002. Completed Schedules are required under RCW 48.31C.030(2)(d) and (2)(g), and WAC 284-18A-910, Items 5 and 8, as part of the Form A. See also 48.31B.015(2)(d) and (2)(g); 284-18-910, Items 5 and 8.

These Schedules pertain to the assets and liabilities that Premera intends to transfer with its current Alaska operations to its proposed Alaska for-profit subsidiary. The documents provided do not list the assets and liabilities but merely state that the proposed transfer will comply with the "applicable minimum capital, surplus and risk based capital requirements imposed by the State of Alaska Insurance Code." Although other materials provided by Premera may be relevant, Premera has failed to specifically address the Form A requirements with respect to these Schedules; therefore, the Form A is not complete and is deficient in this respect.

In addition, Premera's representation that much of the data identified to Premera and requested relating to the financial statements for all affiliated statutory entities for all the years in business for each entity (requests numbers WA 20 and WA 60 – submitted on October 22, 2002) is not in its possession or under its control is presumed at this time to be accurate.